

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14
Governmental Fund Financial Statements:	
Balance Sheet	C 15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 16
Statement of Revenues, Expenditures and Changes in Fund Balances	E 17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 18
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 19
Statement of Revenues, Expenses and Changes in Fund Net Assets	H 20
Statement of Cash Flows	I 21
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	J 22
Statement of Changes in Fiduciary Net Assets	K 23
Notes to Financial Statements	24-35
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	36
Notes to Required Supplementary Information - Budgetary Reporting	37
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2 39
Schedule of Changes in Student Activity Accounts	3 40
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4 41
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	42-43
Schedule of Findings	44-47

Edgewood-Colesburg Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Randall Mescher	President	2007
James Lueken	Vice President	2007
Joan Kerns	Board Member	2006
Joe Johnson	Board Member	2006
Scot Christiansen	Board Member	2005

Board of Education (After September 2005 Election)		
James Lueken	President	2007
Randall Mescher	Vice President	2007
Joan Kerns	Board Member	2006
Joe Johnson	Board Member	2006
Scot Christiansen	Board Member	2008

School Officials		
Galen Reinsmoen	Superintendent	2006
Martha Romig	District Secretary and Business Manager	2006
Marc Casey	Attorney	2006

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(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Edgewood-Colesburg Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Edgewood-Colesburg Community School District, Edgewood, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Edgewood-Colesburg Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2006 on our consideration of the Edgewood-Colesburg Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 36 and 37 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Edgewood-Colesburg Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 18, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Edgewood-Colesburg Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,225,157 in fiscal 2005 to \$4,529,159 in fiscal 2006, while General Fund expenditures increased from \$4,224,310 in fiscal 2005 to \$4,505,151 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$631,250 in fiscal 2005 to a balance of \$655,258 in fiscal 2006.
- The increase in General Fund revenues was attributable to an increase in revenues received from tuition and state sources in fiscal 2006. The increase in expenditures was due to a increase in the negotiated salaries and benefits.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Edgewood-Colesburg Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Edgewood-Colesburg Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Edgewood-Colesburg Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Edgewood-Colesburg Community School District Annual Financial Report

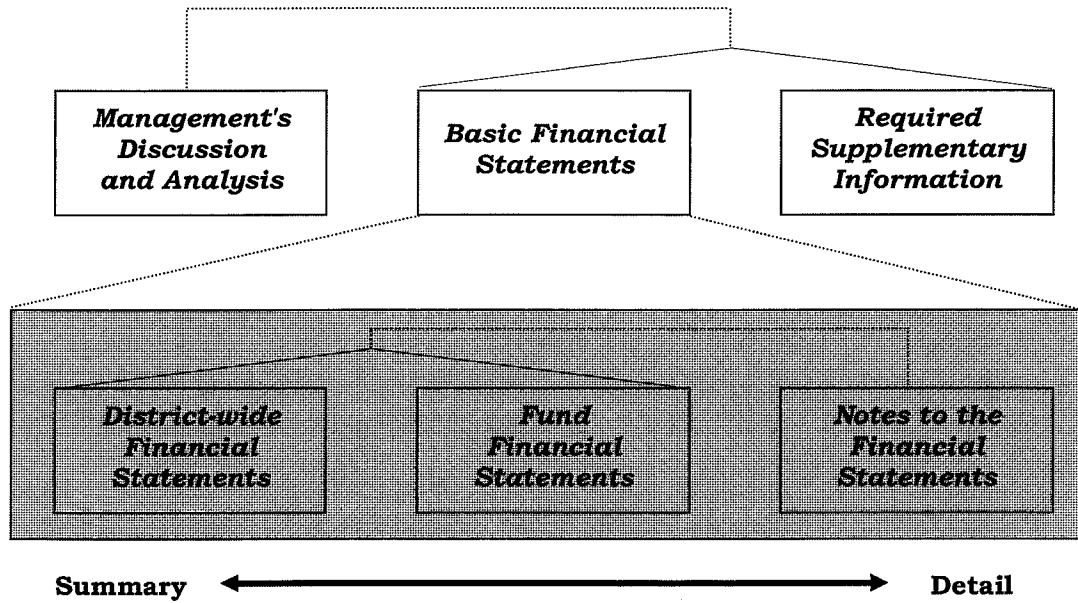


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary fund:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 4,135,674	3,755,534	39,535	28,421	4,175,209	3,783,955	10.34%
Capital assets	5,025,791	5,056,128	29,210	18,434	5,055,001	5,074,562	-0.39%
Total assets	9,161,465	8,811,662	68,745	46,855	9,230,210	8,858,517	4.20%
Long-term obligations	3,241,999	3,495,824	0	0	3,241,999	3,495,824	-7.26%
Other liabilities	3,097,297	2,702,598	32,505	32,838	3,129,802	2,735,436	14.42%
Total liabilities	6,339,296	6,198,422	32,505	32,838	6,371,801	6,231,260	2.26%
Net assets:							
Invested in capital assets, net of related debt	2,031,853	1,910,272	29,210	18,434	2,061,063	1,928,706	6.86%
Restricted	119,470	116,815	0	0	119,470	116,815	2.27%
Unrestricted	670,846	586,153	7,030	(4,417)	677,876	581,736	16.53%
Total net assets	\$ 2,822,169	2,613,240	36,240	14,017	2,858,409	2,627,257	8.80%

The District's combined net assets increased by \$231,152 or 8.8% over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$2,655 or 2.27% over the prior year.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased approximately \$96,140 or 16.53% over the prior year.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 827,043	776,863	167,147	179,188	994,190	956,051	3.99%
Operating grants and contributions and restricted interest	670,155	648,188	114,929	96,459	785,084	744,647	5.43%
General revenues:							
Property tax	1,591,010	1,652,354	0	0	1,591,010	1,652,354	-3.71%
Local option sales and service tax	235,045	258,577	0	0	235,045	258,577	-9.10%
Unrestricted state grants	1,860,944	1,751,599	0	0	1,860,944	1,751,599	6.24%
Other	140,662	31,890	206	247	140,868	32,137	338.34%
Total revenues	5,324,859	5,119,471	282,282	275,894	5,607,141	5,395,365	3.93%
Program expenses:							
Governmental activities:							
Instructional	3,095,398	2,936,770	0	0	3,095,398	2,936,770	5.40%
Support services	1,596,691	1,350,582	3,713	0	1,600,404	1,350,582	18.50%
Non-instructional programs	0	1,000	278,186	285,221	278,186	286,221	-2.81%
Other expenses	423,841	486,838	0	0	423,841	486,838	-12.94%
Total expenses	5,115,930	4,775,190	281,899	285,221	5,397,829	5,060,411	6.67%
Change in net assets before capital contributions	208,929	344,281	383	(9,327)	209,312	334,954	-37.51%
Capital contributions	0	0	21,840	0	21,840	0	100.00%
Change in net assets	208,929	344,281	22,223	(9,327)	231,152	334,954	-30.99%
Net assets beginning of year	2,613,240	2,268,959	14,017	23,344	2,627,257	2,292,303	14.61%
Net assets end of year	\$ 2,822,169	2,613,240	36,240	14,017	2,858,409	2,627,257	8.80%

In fiscal 2006, property tax and unrestricted state grants account for 64.8% of the revenue from governmental activities while charges for services and operating grants and contributions account for nearly 92.8% of the revenue from business type activities.

The District's total revenues were approximately \$5.607 million of which \$5.325 million was for governmental activities and \$.282 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 3.93% in revenues and a 6.67% increase in expenses. The increase in expenses was related to the increase in support services costs during the year.

Governmental Activities

Revenues for governmental activities were \$5,324,859 and expenses were \$5,115,930.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,095,398	1,760,505
Support services	1,596,691	1,596,691
Other expenses	423,841	261,536
Totals	<u>\$ 5,115,930</u>	<u>3,618,732</u>

- The cost financed by users of the District's programs was \$827,043.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$670,155.
- The net cost of governmental activities was financed with \$1,591,010 in property and other taxes, \$235,045 in local option sales tax services, and \$1,860,944 in unrestricted state grants and \$73,534 in investment earnings.

Business-Type Activities

Revenues of the District's business-type activities were \$282,282 and expenses were \$281,899. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income. The District also received \$21,840 in contributed capital.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Edgewood-Colesburg Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$964,453, compared to last year's ending fund balances of \$991,696.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. An increase in revenues was enough to offset the increase in expenditures which ensured in the General Fund balance to increase.
- The Capital Projects Fund balance decreased from \$217,753 in fiscal 2005 to a balance of \$183,983 for fiscal 2006. This decrease is primarily due to the District transferring \$115,000 to the Debt Service Fund for debt relief.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$14,017 at June 30, 2005 to \$36,240 at June 30, 2006, representing an increase of approximately 158.58%. The Nutrition Fund also received \$21,840 in contributed capital during the year.

BUDGETARY HIGHLIGHTS

The District's receipts were \$244,673 more than budgeted receipts, a variance of 4.57%. The most significant variance resulted from the District receiving more from federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

During the year ended June 30, 2006, the District adopted one budget amendment increasing expenditures in each functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$5,055,001, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$258,442.

The original cost of the District's capital assets was \$7,355,123. Governmental funds account for \$7,221,856 with the remainder of \$133,267 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress was completed during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 16,772	16,771	0	0	16,772	16,771	0.01%
Construction in progress	0	89,225	0	0	0	89,225	-100.00%
Buildings	4,569,422	4,646,000	0	0	4,569,422	4,646,000	-1.68%
Improvements other than buildings	240,761	82,150	0	0	240,761	82,150	65.88%
Machinery and equipment	198,836	221,982	29,210	18,434	228,046	240,416	-5.42%
Total	\$ 5,025,791	5,056,128	29,210	18,434	5,055,001	5,074,562	-0.39%

Long-Term Debt

At June 30, 2006, the District had \$3,241,999 in general obligation and other long-term debt outstanding. This represents a decrease of 7.3% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 3,125,000	3,355,000	-6.9%
Revenue bonds	25,139	31,424	-20.0%
Computer loan	27,860	0	100.0%
Early retirement	64,000	109,400	-41.5%
Totals	\$ 3,241,999	3,495,824	-7.3%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The budget guarantee, (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Martha Romig, Board Secretary, Edgewood-Colesburg Community School District, 403 W. Union St., P.O. Box 315, Edgewood, Iowa, 52042.

BASIC FINANCIAL STATEMENTS

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP(Note 5)	\$ 1,146,700	0	1,146,700
Other	1,186,775	24,331	1,211,106
Receivables			
Property tax:			
Delinquent	30,127	0	30,127
Succeeding year	1,548,928	0	1,548,928
Income surtax	84,000	0	84,000
Accounts	1,170	0	1,170
Accrued ISCAP interest (Note 5)	9,768	0	9,768
Interfund	31,050	0	31,050
Due from other governments	97,156	0	97,156
Inventories	0	15,204	15,204
Capital assets, net of accumulated depreciation (Note 6)	5,025,791	29,210	5,055,001
Total Assets	9,161,465	68,745	9,230,210
Liabilities			
Interfund payable	0	31,050	31,050
Accounts payable	21,782	0	21,782
Salaries and benefits payable	353,975	0	353,975
ISCAP warrants payable (Note 5)	1,146,000	0	1,146,000
ISCAP accrued interest payable (Note 5)	8,457	0	8,457
ISCAP unamortized premium	8,079	0	8,079
Accrued interest payable	10,076	0	10,076
Deferred revenue:			
Succeeding year property tax	1,548,928	0	1,548,928
Unearned revenue	0	1,455	1,455
Long-term liabilities (Note 7):			
Portion due within one year:			
General obligation bonds	250,000	0	250,000
Revenue bonds	6,285	0	6,285
Computer loan	13,253	0	13,253
Early Retirement	28,000	0	28,000
Portion due after one year:			
General obligation bonds	2,875,000	0	2,875,000
Revenue bonds	18,854	0	18,854
Computer loan	14,607	0	14,607
Early Retirement	36,000	0	36,000
Total Liabilities	6,339,296	32,505	6,371,801
Net Assets			
Investment in capital assets, net of related debt	2,031,853	29,210	2,061,063
Restricted for:			
Other special revenue	119,470	0	119,470
Unrestricted	670,846	7,030	677,876
Total Net Assets	\$ 2,822,169	36,240	2,858,409

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,975,968	525,574	474,538	(975,856)	0	(975,856)
Special instruction	624,870	61,093	33,312	(530,465)	0	(530,465)
Other instruction	494,560	240,376	0	(254,184)	0	(254,184)
	<u>3,095,398</u>	<u>827,043</u>	<u>507,850</u>	<u>(1,760,505)</u>	<u>0</u>	<u>(1,760,505)</u>
Support services:						
Student services	126,475	0	0	(126,475)	0	(126,475)
Instructional staff services	176,521	0	0	(176,521)	0	(176,521)
Administration services	551,113	0	0	(551,113)	0	(551,113)
Operation and maintenance of plant services	420,888	0	0	(420,888)	0	(420,888)
Transportation services	321,694	0	0	(321,694)	0	(321,694)
	<u>1,596,691</u>	<u>0</u>	<u>0</u>	<u>(1,596,691)</u>	<u>0</u>	<u>(1,596,691)</u>
Other expenditures:						
Long-term debt interest	126,735	0	0	(126,735)	0	(126,735)
AEA flowthrough	162,305	0	162,305	0	0	0
Depreciation(unallocated)*	134,801	0	0	(134,801)	0	(134,801)
	<u>423,841</u>	<u>0</u>	<u>162,305</u>	<u>(261,536)</u>	<u>0</u>	<u>(261,536)</u>
Total governmental activities	5,115,930	827,043	670,155	(3,618,732)	0	(3,618,732)
Business-Type activities:						
Support services:						
Operation and maintenance of plant services	3,713	0	0	0	(3,713)	(3,713)
Non-instructional programs:						
Nutrition services	278,186	167,147	114,929	0	3,890	3,890
Total business-type activities	<u>281,899</u>	<u>167,147</u>	<u>114,929</u>	<u>0</u>	<u>177</u>	<u>177</u>
Total	<u>\$ 5,397,829</u>	<u>994,190</u>	<u>785,084</u>	<u>(3,618,732)</u>	<u>177</u>	<u>(3,618,555)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,330,742	0	1,330,742
Debt service				224,387	0	224,387
Capital outlay				35,881	0	35,881
Local option sales and services				235,045	0	235,045
Unrestricted state grants				1,860,944	0	1,860,944
Unrestricted investment earnings				73,534	206	73,740
Other				67,128	0	67,128
Total general revenues				<u>3,827,661</u>	<u>206</u>	<u>3,827,867</u>
Change in net assets before capital contributions				208,929	383	209,312
Capital contributions				0	21,840	21,840
Changes in net assets				208,929	22,223	231,152
Net assets beginning of year				2,613,240	14,017	2,627,257
Net assets end of year				<u>\$ 2,822,169</u>	<u>36,240</u>	<u>2,858,409</u>

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Other Nonmajor Governmental Funds	Total
Assets			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 1,146,700	0	1,146,700
Other	915,430	271,345	1,186,775
Receivables:			
Property tax:			
Delinquent	23,633	6,494	30,127
Succeeding year	1,173,730	375,198	1,548,928
Income surtax	84,000	0	84,000
Interfund	58,569	0	58,569
Accounts	1,170	0	1,170
Accrued ISCAP interest(Note 5)	9,768	0	9,768
Due from other governments	35,719	61,437	97,156
Total Assets	\$ 3,448,719	714,474	4,163,193
Liabilities and Fund Balances			
Liabilities:			
Interfund payable	\$ 0	27,519	27,519
Accounts payable	19,220	2,562	21,782
Salaries and benefits payable	353,975	0	353,975
ISCAP warrants payable(Note 5)	1,146,000	0	1,146,000
ISCAP accrued interest payable(Note 5)	8,457	0	8,457
ISCAP unamortized premium	8,079	0	8,079
Deferred revenue:			
Succeeding year property tax	1,173,730	375,198	1,548,928
Income surtax	84,000	0	84,000
Total liabilities	2,793,461	405,279	3,198,740
Fund balances:			
Reserved for:			
Debt Service	0	10,154	10,154
Unreserved	655,258	299,041	954,299
Total fund balances	655,258	309,195	964,453
Total Liabilities and Fund Balances	\$ 3,448,719	714,474	4,163,193

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 964,453
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	5,025,791
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(10,076)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	84,000
Long-term liabilities, including bonds and computer loans and early retirement, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,241,999)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 2,822,169</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,253,413	560,488	1,813,901
Tuition	586,667	0	586,667
Other	157,980	223,058	381,038
State sources	2,237,613	0	2,237,613
Federal sources	293,486	0	293,486
Total revenues	4,529,159	783,546	5,312,705
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	1,965,805	29,648	1,995,453
Special instruction	624,870	0	624,870
Other instruction	282,309	212,251	494,560
	2,872,984	241,899	3,114,883
Support services:			
Student services	126,475	0	126,475
Instructional staff services	117,317	59,204	176,521
Administration services	556,612	815	557,427
Operation and maintenance of plant services	364,018	93,987	458,005
Transportation services	305,440	10,933	316,373
	1,469,862	164,939	1,634,801
Other expenditures:			
Facilities acquisitions	0	92,269	92,269
Long-term debt:			
Principal	0	236,285	236,285
Interest	0	127,265	127,265
AEA flowthrough	162,305	0	162,305
	162,305	455,819	618,124
Total expenditures	4,505,151	862,657	5,367,808
Excess(deficiency) of revenues over(under) expenditures	24,008	(79,111)	(55,103)
Other financing sources(uses):			
Transfers in	0	115,000	115,000
Transfers out	0	(115,000)	(115,000)
Loan proceeds	0	27,860	27,860
Total other financing sources(uses)	0	27,860	27,860
Net change in fund balances	24,008	(51,251)	(27,243)
Fund balance beginning of year	631,250	360,446	991,696
Fund balance end of year	\$ 655,258	309,195	964,453

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ (27,243)

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 217,041	
Depreciation expense	<u>(247,378)</u>	(30,337)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues and repayments, are as follows:

Issued	\$ (27,860)	
Repaid	<u>236,285</u>	208,425

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

530

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.

12,154

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early Retirement	<u>45,400</u>	
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Changes in net assets of governmental activities (page 14)

\$ 208,929

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
Assets	
Cash and pooled investments	\$ 24,331
Inventories	15,204
Capital assets, net of accumulated depreciation	<u>29,210</u>
Total Assets	<u>68,745</u>
Liabilities	
Interfund payable	31,050
Unearned revenue	<u>1,455</u>
Total Liabilities	<u>32,505</u>
Net Assets	
Invested in capital assets, net of related debt	29,210
Unrestricted	<u>7,030</u>
Total Net Assets	<u><u>\$ 36,240</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	<u>\$ 167,147</u>
Operating expenses:	
Support services:	
Operation and maintenance of plant services	
Supplies	<u>3,713</u>
Non-instructional programs:	
Food service operations:	
Salaries	94,613
Benefits	13,792
Services	664
Supplies	157,951
Other	102
Depreciation	<u>11,064</u>
	<u>278,186</u>
Total operating expenses	<u>281,899</u>
Operating loss	<u>(114,752)</u>
Non-operating revenues:	
State sources	3,743
Federal sources	111,186
Interest income	206
Total non-operating revenues	<u>115,135</u>
Net income before capital contributions	383
Capital contributions	<u>21,840</u>
Net income	22,223
Net assets beginning of year	<u>14,017</u>
Net assets end of year	<u><u>\$ 36,240</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 165,675
Cash received from miscellaneous operating activities	1,139
Cash payments to employees for services	(108,405)
Cash payments to suppliers for goods or services	(158,940)
Net cash used in operating activities	<u>(100,531)</u>
Cash flows from non-capital financing activities:	
State grants received	3,743
Federal grants received	96,772
Net cash provided by non-capital financing activities	<u>100,515</u>
Cash flows from investing activities:	
Interest on investments	206
Net cash provided by investing activities	<u>206</u>
Net increase in cash and cash equivalents	190
Cash and cash equivalents at beginning of year	<u>24,141</u>
Cash and cash equivalents at end of year	<u>\$ 24,331</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (114,752)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,414
Depreciation	11,064
Increase in inventories	(10,924)
Decrease in unearned revenue	(333)
Net cash used in operating activities	<u>\$ (100,531)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 24,331</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$14,414.

During the year ended June 30, 2006, the District received contributed capital of \$21,840.

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

		<u>Private Purpose</u>
		<u>Trust</u>
		<u>Scholarship</u>
Assets		
Cash and pooled investments	\$	<u>6,066</u>
Liabilities		<u>0</u>
Net assets		
Reserved for scholarships	\$	<u><u>6,066</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2006

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Additions:	<u>\$ 0</u>
Deductions:	<u>0</u>
Change in net assets	0
Net assets beginning of year	<u>6,066</u>
Net assets end of year	<u>\$ 6,066</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Edgewood-Colesburg Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Edgewood and Colesburg, Iowa, and the predominate agricultural territory in Delaware and Clayton Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Edgewood-Colesburg Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Edgewood-Colesburg Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Delaware and Clayton Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax

receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits in bank at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 140,483

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured or registered in the District's name.

At June 30, 2006, the District had investments in certificates of deposit, stated at fair value, maturing over a year as follows:

	Fair Value
Certificates of Deposit	\$ 13,623

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue, Physical Plant and Equipment Levy	\$ 27,519
General	Nutrition	31,050
		<u>\$ 58,569</u>

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 115,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of

School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	\$ 471,640	9,558	470,000	8,285
2006-07A	6/28/06	6/28/07	675,060	210	676,000	172
			<u>\$ 1,146,700</u>	<u>9,768</u>	<u>1,146,000</u>	<u>8,457</u>

The district pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the district must repay the outstanding withdrawal from its General Fund receipts. In addition, the district must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund for the year ended June 30, 2006 was noted.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.900%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 127,458	21,840	16,031	133,267
Less accumulated depreciation	109,024	11,064	16,031	104,057
Business-type activities capital assets, net	<u>\$ 18,434</u>	<u>10,776</u>	<u>0</u>	<u>29,210</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 16,771	1	0	16,772
Construction in progress	89,225	6,800	96,025	0
Total capital assets not being depreciated	105,996	6,801	96,025	16,772
Capital assets being depreciated:				
Buildings	5,910,477	43,602	0	5,954,079
Improvements other than buildings	113,822	173,232	297	286,757
Machinery and equipment	916,694	89,431	41,877	964,248
Total capital assets being depreciated	6,940,993	306,265	42,174	7,205,084
Less accumulated depreciation for:				
Buildings	1,264,477	120,180	0	1,384,657
Improvements other than buildings	31,672	14,621	297	45,996
Machinery and equipment	694,712	112,577	41,877	765,412
Total accumulated depreciation	1,990,861	247,378	42,174	2,196,065
Total capital assets being depreciated, net	4,950,132	58,887	0	5,009,019
Governmental activities capital assets, net	\$ 5,056,128	65,688	96,025	5,025,791

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Current	\$ 39,452
Support services:	
Administration	9,053
Operation and maintenance of plant	2,137
Transportation	61,935
	112,577
Unallocated depreciation	134,801
Total governmental activities depreciation expense	\$ 247,378
Business-type activities:	
Food services	\$ 11,064
Total business-type activities depreciation expense	\$ 11,064

(7) **Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 3,355,000	0	230,000	3,125,000	250,000
Revenue bonds	31,424	0	6,285	25,139	6,285
Computer loan	0	27,860	0	27,860	13,253
Early retirement	109,400	0	45,400	64,000	28,000
Total	\$ 3,495,824	27,860	281,685	3,241,999	297,538

General Obligation Bonds

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 2001			Bond Issue of May 1, 2003			Total		
	Interest			Interest					
	Rates	Principal	Interest	Rates	Principal	Interest	Principal	Interest	Total
2007	4.05 %	\$ 250,000	35,310	-	%	\$ 82,880	\$ 250,000	118,190	368,190
2008	4.10	270,000	25,185	-		82,880	270,000	108,065	378,065
2009	4.20	290,000	14,115	-		82,880	290,000	96,995	386,995
2010	4.30	45,000	1,935	3.50	170,000	82,880	215,000	84,815	299,815
2011				3.50	225,000	76,930	225,000	76,930	301,930
2012				3.50	235,000	69,055	235,000	69,055	304,055
2013				3.50	245,000	60,830	245,000	60,830	305,830
2014				3.65	255,000	52,255	255,000	52,255	307,255
2015				3.65	265,000	42,948	265,000	42,948	307,948
2016				3.70	280,000	33,275	280,000	33,275	313,275
2017				3.80	290,000	22,915	290,000	22,915	312,915
2018				3.90	305,000	11,895	305,000	11,895	316,895
Total		\$ 855,000	76,545		\$ 2,270,000	701,623	\$ 3,125,000	778,168	3,903,168

Revenue Bonds

On June 1, 2005, the District entered into a local option sales and services tax revenue bond for the playground surfacing project. Details of the District's revenue bond indebtedness as of the end of the fiscal year are as follows:

Year	Bond Issue of June 1, 2005				
Ending	Interest				
June 30,	Rates	Principal	Interest	Total	
2007	4.281	% \$ 6,285	1,076	7,361	
2008	4.281	6,285	807	7,092	
2009	4.281	6,285	538	6,823	
2010	4.281	6,284	269	6,553	
Total		\$ 25,139	2,690	27,829	

Computer Loan Payable

The District entered into a loan dated May 16, 2006 for the purchase of new computers. Details of the District's loan indebtedness as of the end of the fiscal year are as follows:

Year	Loan Issue of May 16, 2006				
Ending	Interest				
June 30,	Rates	Principal	Interest	Total	
2007	10.25	% \$ 13,253	2,847	16,100	
2008	10.25	14,607	1,493	16,100	
Total		\$ 27,860	4,340	32,200	

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a \$30 per day of unused sick leave and subject to a maximum of \$4,000 per individual per year. Early retirement benefits paid during the year ended June 30, 2006, totaled \$45,400.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$156,952, \$147,983, and \$144,011, respectively, equal to the required contributions for each year.

(9) Risk Management

Edgewood-Colesburg Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$162,305 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) Deficit Fund Balance

The District had a deficit fund balance in the Physical Plant and Equipment Levy (PPEL) of \$14,518 at June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPEDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,781,606	167,353	2,948,959	2,810,657	2,810,657	138,302
State sources	2,237,613	3,743	2,241,356	2,219,657	2,219,657	21,699
Federal sources	293,486	111,186	404,672	320,000	320,000	84,672
Total revenues	5,312,705	282,282	5,594,987	5,350,314	5,350,314	244,673
Expenditures:						
Instruction	3,114,883	0	3,114,883	3,083,400	3,283,400	168,517
Support services	1,634,801	3,713	1,638,514	1,552,233	1,692,333	53,819
Non-instructional programs	0	278,186	278,186	270,000	350,000	71,814
Other expenditures	618,124	0	618,124	684,130	794,130	176,006
Total expenditures	5,367,808	281,899	5,649,707	5,589,763	6,119,863	470,156
Excess(deficiency) of revenues over(under) expenditures	(55,103)	383	(54,720)	(239,449)	(769,549)	714,829
Other financing sources, net	27,860	21,840	49,700	0	0	49,700
Excess(deficiency) of revenues over(under) expenditures	(27,243)	22,223	(5,020)	(239,449)	(769,549)	764,529
Balance beginning of year	991,696	14,017	1,005,713	1,108,523	1,108,523	(102,810)
Balance end of year	\$ 964,453	36,240	1,000,693	869,074	338,974	661,719

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2006, the District adopted one budget amendment increasing expenditures in each functional area by a total of \$530,100.

OTHER SUPPLEMENTARY INFORMATION

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue Funds							
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
Assets								
Cash and pooled investments	\$ 8,783	109,342	12,288	10,128	140,541	5,696	125,108	271,345
Receivables:								
Property tax:								
Current year delinquent	1,323	0	713	0	2,036	4,458	0	6,494
Succeeding year	84,000	0	37,333	0	121,333	253,865	0	375,198
Due from other governments	0	0	0	0	0	0	61,437	61,437
Total Assets	\$ 94,106	109,342	50,334	10,128	263,910	264,019	186,545	714,474
Liabilities and Fund Balances								
Liabilities:								
Interfund payable	\$ 0	0	27,519	0	27,519	0	0	27,519
Accounts payable	0	0	0	0	0	0	2,562	2,562
Deferred revenue:								
Succeeding year property tax	84,000	0	37,333	0	121,333	253,865	0	375,198
Total Liabilities	84,000	0	64,852	0	148,852	253,865	2,562	377,760
Fund balances:								
Reserved:								
Debt Service	0	0	0	0	0	10,154	0	10,154
Unreserved	10,106	109,342	(14,518)	10,128	115,058	0	183,983	299,041
Total fund balances	10,106	109,342	(14,518)	10,128	115,058	10,154	183,983	309,195
Total Liabilities and Fund Balances	\$ 94,106	109,342	50,334	10,128	263,910	264,019	186,545	686,955

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Debt Service	Capital Projects	
REVENUES:								
Local sources:								
Local tax	\$ 65,175	0	35,881	0	101,056	224,387	235,045	560,488
Other	84	215,077	969	304	216,434	1,696	4,928	223,058
TOTAL REVENUES	65,259	215,077	36,850	304	317,490	226,083	239,973	783,546
EXPENDITURES:								
Current:								
Instruction:								
Regular instruction	29,448	0	0	200	29,648	0	0	29,648
Other instruction	0	212,251	0	0	212,251	0	0	212,251
Support services:								
Instructional staff	0	0	59,204	0	59,204	0	0	59,204
Administration services	0	0	15	0	15	800	0	815
Operation and maintenance of plant services	23,600	0	3,913	0	27,513	0	66,474	93,987
Student transportation	10,933	0	0	0	10,933	0	0	10,933
Other expenditures:								
Facilities acquisitions	0	0	0	0	0	0	92,269	92,269
Long-term debt:								
Principal	0	0	0	0	0	236,285	0	236,285
Interest	0	0	0	0	0	127,265	0	127,265
TOTAL EXPENDITURES	63,981	212,251	63,132	200	339,564	364,350	158,743	862,657
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,278	2,826	(26,282)	104	(22,074)	(138,267)	81,230	(79,111)
OTHER FINANCING SOURCES (USES):								
Transfers in	0	0	0	0	0	115,000	0	115,000
Transfers out	0	0	0	0	0	0	(115,000)	(115,000)
Loan proceeds	0	0	27,860	0	27,860	0	0	27,860
Total other financing sources (uses)	0	0	27,860	0	27,860	115,000	(115,000)	27,860
NET CHANGE IN FUND BALANCES	1,278	2,826	1,578	104	5,786	(23,267)	(33,770)	(51,251)
FUND BALANCE BEGINNING OF YEAR	8,828	106,516	(16,096)	10,024	109,272	33,421	217,753	360,446
FUND BALANCE END OF YEAR	\$ 10,106	109,342	(14,518)	10,128	115,058	10,154	183,983	309,195

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 22	4,364	4,308	78
Friends of the Arts	3,603	4,871	1,984	6,490
ED-CO Partners	3,382	2,801	3,995	2,188
Elem. Band Student Purchase	(332)	372	40	0
Track	0	1,521	1,521	0
Golf	0	349	349	0
Boys Basketball	1,901	4,272	5,052	1,121
Boys Basketball Fundraising	161	654	580	235
Football	3,596	8,498	9,518	2,576
Baseball	(32)	4,600	4,568	0
Wrestling	196	1,842	1,680	358
Wrestling fundraiser	0	589	579	10
Girls Basketball	1,669	6,964	6,130	2,503
Volleyball Fundraiser	639	6,844	4,339	3144
Volleyball	272	2,961	3,110	123
Softball	616	1,834	2,447	3
Softball Fundraising	670	4,134	4,157	647
Elem. Perrinjaquet Asst.	1,264	154	0	1,418
Perrinjaquet Assistance	4,305	0	0	4,305
Perrinjaquet Income	19	0	0	19
HS Supplies	1,045	1,449	1,320	1,174
Elem. Activities	18,075	12,875	17,649	13,301
Concessions	1,558	18,826	13,396	6,988
Post Prom	3,062	13,110	13,146	3,026
Elem. Fundraising	0	32,891	32,891	0
Envir. First Grant/FFA	2,006	1,000	1,357	1,649
BOIC Grant/FFA	27	0	27	0
Cheerleading	855	65	233	687
FFA	1,770	20,121	17,591	4,300
Spanish Club	1,623	0	0	1,623
FFA CD	2,265	56	0	2,321
HS Student Council	556	1,719	1,089	1,186
Class of 2006	3,168	0	3,168	0
Class of 2007	7,082	0	3,750	3,332
Class of 2008	6,868	0	38	6,830
Class of 2009	6,172	15	25	6,162
Class of 2010	3,539	5,763	4,706	4,596
Class of 2011	0	6,676	3,115	3,561
Athletics General	605	845	1,208	242
HS Art Club	0	110	0	110
JH Student Council	87	251	68	270
Yearbook	17,857	16,875	15,176	19,556
F.B.L.A.	832	10,445	8,716	2,561
Athletic Supplies	36	6	0	42
Band Resale	(651)	1,543	1,042	(150)
Band Fundraising	6,128	12,812	18,183	757
Total	\$ 106,516	215,077	212,251	109,342

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	1,813,901	1,913,747	1,783,513	1,676,469
Tuition		586,667	502,505	478,385	439,058
Other		381,038	308,499	319,185	298,629
State sources		2,237,613	2,096,722	2,133,576	2,181,788
Federal sources		293,486	300,814	222,504	189,388
Total	\$	5,312,705	5,122,287	4,937,163	4,785,332
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	1,995,453	1,847,168	1,727,156	1,766,710
Special instruction		624,870	615,222	589,104	530,872
Other instruction		494,560	500,319	414,213	429,223
Support services:					
Student services		126,475	142,973	110,208	111,590
Instructional staff services		176,521	93,179	131,528	180,611
Administration services		557,427	525,863	676,436	486,941
Operation and maintenance of plant services		458,005	341,650	433,954	362,641
Transportation services		316,373	241,271	273,619	289,882
Non-instructional programs		0	1,000	2,942	210
Other expenditures:					
Facilities acquisitions		92,269	162,094	2,116,448	280,466
Long-term debt:					
Principal		236,285	235,000	215,000	215,000
Interest		127,265	137,171	152,210	70,454
AEA flow-through		162,305	161,081	164,446	176,893
Total	\$	5,367,808	5,003,991	7,007,264	4,901,493

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Edgewood-Colesburg Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Edgewood-Colesburg Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 18, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Edgewood-Colesburg Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Edgewood-Colesburg Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Edgewood-Colesburg Community School District and other parties to whom Edgewood-Colesburg Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Edgewood-Colesburg Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

September 18, 2006

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-06 Nutrition Fund Invoices - We noted during our audit that the District is paying Nutrition Fund bills from statements and not invoices. We also noted that invoices are also not being properly approved for payment.

Recommendation - The District should present the bills for payment to the Board for proper approval in accordance with the district policy of payment of goods. The District should also pay bills only from approved invoices not statements, as a statement does not provide enough detail to determine the product purchases and therefore allow ability is almost impossible to determine.

Response - Statements and invoices will be brought to the Central Office for approval.

Conclusion - Response accepted.

- I-C-06 Supporting Documents for Payments with Credit Cards - The District has a policy in place for credit card usage that states the users of the credit cards need to provide detailed receipts for purchases made as well as the credit card receipt indicating the date, purpose, and nature of the expense for each claim item. Failure to do so makes the expense the responsibility of the employee that created the expense. Furthermore District policy states, in special circumstances the Superintendent or the Board can approve a claim without proper receipt but there needs to be written documentation explaining the circumstances.

Recommendation - The District has a policy in place for credit card usage as part of the Expense Reimbursement policy. The users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place to ensure the proper detailed documentation will be available with paid credit card statements.

Response - We have reviewed our procedures and a policy has been implemented.

Conclusion - Response accepted.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, did not exceed the amount budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction	
	Description	Amount
Randy Mescher, Board Member Owner of Edgewood Building Center	Supplies	\$ 2,773
Joan Kerns, Board Member Spouse Co-Owner of Edgewood Locker	Supplies	\$ 3,935

In accordance with the Attorney General's opinion dated November 9, 1976, the above transaction with the spouse of the Board Member does not appear to represent a conflict of interest.

In accordance with Chapter 279.7A of the Code of Iowa, the above transaction with the Board Member may represent a conflict of interest.

Recommendation - The District should consult legal council to determine if the transactions with Randy Mescher represent a conflict of interest to the District.

Response - We will consult legal council on this matter.

Conclusion - Response accepted.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-06 Financial Condition - The District had a deficit fund balance of \$14,518 in the Special Revenue, Physical Plant and Equipment Levy Fund. We also noted negative balance within the Special Revenue, Student Activity Fund

Recommendation - The District should investigate alternatives to eliminate deficits in order to return these funds to a sound financial condition.

Response - The deficit in the PPEL fund is money borrowed from the General Fund and will be paid back with PPEL tax dollars. We will also monitor the Student Activity Fund to try and eliminate the deficit accounts.

Conclusion - Response accepted.

II-K-06 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We have contacted the bank and resolved this matter.

Conclusion - Response accepted.